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Encl. 3
Desp. No. 126
From Embassy BonnTRANSLATION

Frankfurter Allgemeine Zeitung, July 13, 1956, p. 8.

Volkswagen Plant Invested More than DM 200 million in 1955
Production increased by 36 percent / More than one half of total production was exported.

Volkswagenwerk G.m.b.H. (limited company), Wolfsburg. It is hard to avoid superlatives when reviewing the annual balance-sheets of the Volkswagen plant. These figures reflect a development which is indeed unique. Where in the whole world is there a big manufacturing enterprise which has been producing only one article for years and which has no need to think of a basic development or change in its product apart from minor technical improvements and better equipment? What company could claim as does the Volkswagen plant never to have had sales problems since its establishment? This plant does not even feel seasonal influences on its production, since there is such a strong demand for its product in all countries of the earth that seasonal variations virtually balance themselves out. (There is summer in the southern hemisphere when there is winter in the northern.) Even in the USA, that typical country of big cars with luxurious and lavish equipment, the Volkswagen company, in spite of all pessimistic predictions, was able to achieve an overwhelming success with its product immediately after its appearance on the market there: With purchase of almost 36,000 cars, the USA became by far the largest foreign customer for the Volkswagen. There the Volkswagen is already far ahead of all its non-US competitors in terms of new car registrations.

Production and Sales

<u>Number of Cars</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
Total				
Production	136,013	179,740	242,373	329,893
Sales	135,941	175,637	245,839	328,054
Exports	46,881	68,754	108,839	177,637
Share of exports	34.5%	39.2%	44.3%	54.1%
Passenger Cars				
Production ^{1/}	114,348	151,323	202,174	279,986
Sales ^{1/}	114,345	147,806	205,165	278,460
Exports ^{1/}	38,826	55,449	86,634	147,319
Share of exports	34.0%	37.5%	42.3%	52.9%

Share of Volkswagen in total passenger car production of the Federal Area
(Percentages)

Production ^{2/}	39.9	42.5	41.6	42.0
New registrations ^{2/}	37.1	39.5	40.5	35.4
Exports ^{2/}	41.4	42.2	39.4	48.4

^{1/} Difference from total production data consists of delivery vans.
^{2/} Including small buses and ambulance cars.

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From Ambassador Bonn

In recent years the Volkswagen plant has purposely paid special attention to exports in order to gain as broad a sales market as possible. The share of exported vehicles to total sales increased in 1955 from 44.5 percent to 54.2 percent, meaning export sales were for the first time larger than domestic sales. (The share of Volkswagen in total German exports of passenger cars, small buses and ambulances increased from 39.4 percent in 1954 to 43.4 percent in 1955; thus almost every second exported passenger car was a Volkswagen.) Nevertheless, the net number of cars delivered to the domestic market, where terms of delivery ranging between 6 and 8 months are the rule today, has also increased; i.e. from 137,000 to 150,000 in 1955, which is a gain of almost 10 percent. (With a share of 35.4 percent in total new registrations of passenger cars in Germany the Volkswagen is far in the lead.) One can conclude from this how far total sales must have risen during the last year: a total of 328,000 cars were sold, 82,000 (or a fair third) more than in 1954. Production has increased even more; that is by 87,500 cars (or 36 percent) to almost 330,000 cars, thus faster than the average of all vehicle production plants in the Federal Republic (plus 33.3 percent).

Such a rapid production increase in a plant where full employment has existed for years is only possible through large scale investments to expand capacity. The company reported that new investments in fixed assets amounted to DM 172 million in 1955, which is nearly three times as much as the share capital of DM 60 million and more than the book value of total available fixed assets at the beginning of the year (DM 158 million). In these figures the accruals of assets still under construction are not yet included; they appear in the present balance at DM 63 million, or DM 43 million more than at the end of 1954. Thus total investments amounted to DM 215 million in 1955. (Daimler-Benz, which has had about the same turnover, reported for the same year investments of "only" close to DM 100 million, which is not quite half as much.) The largest part of expenditures for the construction of the new delivery van plant at Hannover, which required a total of DM 130 million, was made in 1955. But the influence of this investment on the 1955 balance must not be overestimated. The plant at Hannover was not completed until the spring of 1956 and therefore did not influence capacity during the report year. Moreover, only DM 80 million of the total sum was spent by the end of 1955, the remaining DM 50 million being spent in the course of the new business year. In other words, the major part of the 1955 investment figure, about DM 135 million, related to the plant of Wolfsburg. These investments alone, as well as possibly those of the preceding year, which were now having full effect, resulted in the capacity gain which made a production increase of more than one third possible.

The Volkswagen plant, which has made investments in fixed assets of about DM 0.5 billion since currency reform (including assets under construction), has never acquired medium or long term credits for this purpose. The short-term indebtedness has always been minimal, so far as it can be seen from the annual balance-sheets; at no time has the plant had to ask for bank credits or to issue bills of exchange. (The last balance-sheet shows for the first time a small bill of exchange loan of DM 3 million resulting from export business.) The plant has carried out its enormous investments

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entirely from its own resources; during the last year, however, it was by reducing its formerly surplus bank deposits (which dropped from DM 148 million to DM 60 million in 1955). Since currency reform, about DM 285 million or 57 percent of total investments could be financed through depreciation (in 1955 alone, DM 100 million, or 50 percent more than in the preceding year: DM 66 million). Moreover, the reserves have been increased year by year without the intention, however, according to the management, of accumulating silent reserves. Furthermore, considerable sums out of profits after taxes have been used year by year to increase open reserves. The 1955 profit and loss statement shows, besides a net profit of DM 6.2 million from which again dividends of 9 percent will be paid, about DM 44 million (almost three quarters of the share capital!) as accruals to the reserves. Since currency reform the total of reserves has increased from DM 48.8 million to DM 169.8 million, i.e. by about DM 120 million or twice as much as the share capital. These figures disclose a profit power which has no counterpart in Germany. The reasons are clear: since the Volkswagen plant is producing only one product, mechanization of production procedure can be pushed ahead much more than in any other plant in Germany. The Volkswagen plant is benefiting from cost advantages of a pronounced mass production much more than any other plant. In comparison with other plants the Volkswagen plant receives something like a "productivity dividend" which enables it to do more for further rationalization or expansion of capacity than other plants.

Balance Sheet Items

(Million DM)

<u>Assets:</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
Fixed assets	125,6	153,2	178,2	292,9
Net increase	30,4	59,4	91,0	214,6
Depreciation	21,1	23,3	66,0	99,9
Participations	1,5	3,3	6,9	8,3
Stocks	68,2	58,7	58,5	109,4
Claims	39,9	44,8	51,3	92,9
Liquid Assets ^{1/}	66,5	118,1	162,1	72,6
<u>Liabilities:</u>				
Share capital	60,0	60,0	60,0	60,0
Reserves	95,4	106,8	125,8	169,8
Reserves for specific liabilities	68,3	97,3	133,0	158,2 ^{2/}
Liabilities	71,1	103,3	130,4	179,5
Profit ^{3/}	7,2	10,7	7,8	8,6
Balance total	302,0	378,1	457,0	576,1

^{1/} Including securities.

^{2/} Including DM 24.1 million for old age pensions.

^{3/} Including balance carried forward from preceding year.

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From an Embassy BonnProfit and Loss Statement (Million DM)

	1952	1953	1954	1955
Proceeds from settlements abroad	485,4	563,8	671,3	747,9
Export proceeds	172,9	254,2	393,0	660,0
Turnover	658,3	818,0	1064,3	1407,9
Expenditures:				
Internal Personnel	435,5	523,4	646,5	907,1
Wages and salaries	180,9	109,6	133,9	172,8
Fringe benefits	25,1	28,3	36,1	33,1
Taxes:				
Income and property taxes	62,9	81,1	108,7	117,2
Other taxes	20,9	23,6	27,7	28,1
Depreciation and value adjustments:				
Depreciation	23,5	34,3	66,0	99,4
Value adjustment	-	2,8	22,0	
Added to reserves:	16,2	11,4	19,1	43,9
Annual profit	3,5	3,5	4,3	6,3

The company is occasionally blamed for not passing on to a desirable extent to its customers the benefits of increasing productivity and instead using everything for new investments. That the gain in productivity had to be tremendous during late years can be seen from the figures on quantity of production and size of employment. In 1950 25 persons were needed to produce one car, in 1955 only 23 persons. This means, on the average, a productivity increase of 140 percent; this happened although the production of delivery vans was started in the meantime. But the company can also point to the fact that the annual turnover per employed during the same period has increased from DM 27,048 (1950) to DM 44,596 (1955), i.e. by only 65 percent; in other words, a substantial portion of the productivity gain must have been passed on to customers. Several price cuts, the last in August 1955, are an indication of this fact. Also, workers have received a suitable share of the productivity rise: wages per employed have risen by 52 percent on the average. Wage levels and fringe benefits of the Volkswagen plant are above average, as generally acknowledged. Apart from the increase in taxes, from which the state is profiting, the company paid attention also to the necessity of paying interest on the share capital: dividends of 4 percent were paid from 1950 through 1953 and of 9 percent in 1954 and 1955. These dividends, however, remain with the company as interest drawing loans, because the property situation has not yet been clarified. Actually nobody can complain: the Volkswagen plant has, so to speak, demonstrated the quantity-boon par excellence, since all parties have shared in the progress achieved.

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The management explained that investments of DM 300 million are planned for 1956 and 1957 together; about DM 200 million for 1956 and DM 100 million for 1957. This would indicate a slackening of investment activity; former statements that capacity would be no further expanded if a daily output of 1,800 cars (including 300 delivery vans) were reached, point in the same direction. The Wolfsburg plant obviously considers its decisive task for the near future to be not so much in capacity expansion but particularly in measures to intensify rationalization and mechanization of production. This concerns mainly the Wolfsburg plant, which has now to catch up with its younger brother in Hannover, a technically model plant. If one considers, however, that very substantial sums will be available during the coming years out of depreciations from present investments; moreover, if one is aware of the fact that the dynamics of an introduced development will generally continue, then it seems questionable whether there actually will be an investment drop-off as announced.

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